

DFD-3185-59

May 14, 1959

General Precision Laboratory, Inc.
63 Bedford Road
Pleasantville, New York

REF: Contract HF-2249

Gentlemen:

We cannot process the attached invoice number 20580 for payment without further information. Since we have not processed for payment invoice 20385 dated August 29, 1958, we are wondering if perhaps these charges are applicable to a contract other than the one cited.

Very truly yours,

SHOULD

Doug

Attachment: h/w

Distribution:

- 2 - Add w/att
 - 1 - Contract HF-2249 (Fin)
 - 1 - Contracting Officer
 - 1 - Reading
 - 1 - Chrono
- HEB:en/14 May 1959

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ORIGINAL DOCUMENT MISSING PAGE(S):

Missing Attachment

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#393

REPLY TO:

Eastern District
Auditor General
Comptroller, USAF
Liaison Office
Washington, D.C.

12 March 1959

SUBJECT: Advisory Report of Audit for Price Redetermination
General Precision Laboratory, Inc.
Pleasantville, New York
Contract HF-2249 /

TO : Contracting Officer

REF : DPS-4573

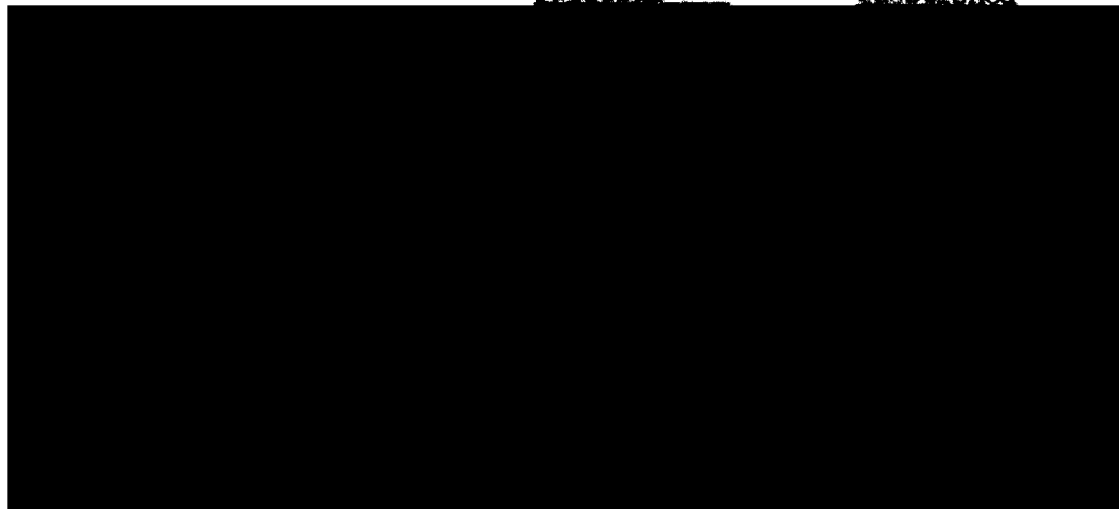
1. Purpose of Examination: Pursuant to referenced request an examination has been made of the books and records of General Precision Laboratory, Inc., Pleasantville, New York, to determine the accuracy of the Contractor's price redetermination proposal submitted in accordance with Part IV of the contract.

2. Results of Examination: The results of the examination are detailed in Exhibit A and are summarized as follows:

STATINTL

Contractor's
Proposal

Costs
Questioned



3. Contract provides for delivery of four (4) systems plus spares and special tools and test equipment. The Contractor made one lot of ten (10) systems. The proposal was based on the average cost to make the ten (10) units.

4. Research and Development - Warranty Expense:

a. The Contractor has requested 5.5% of total costs, exclusive of general and administrative expense, consisting of 1.5% for research and development amounting to \$2,424 and 4% for Warranty in the amount of \$6,461 for an aggregate of \$8,885. There has been no approval by the Contracting Officer of the Contractor's research program and neither has the Defense Department approved the program as of this date.

b. The terms of the Contract do not provide for inclusion of warranty reserves for correction of defects. The Contractor has had no repair experience on this item. Moreover, the Auditor's study revealed that experienced warranty expenses on the Contractor's other products are negligible. The request for 4% warranty expense would appear to be without merit.

5. Special Cement res Tools and Test Equipment: Costs included in this category in the amount of \$5,764 represent that portion of the total tool and test equipment costs allocated to the four units required under the contract. The Auditor has not questioned the costs (except as indicated in Exhibit A) incurred in the production of the tools, but refers to the Contracting Officer for his consideration the following:


a. An inventory of tools and test equipment, representing the \$110,884 of total incurred costs, has been submitted by the Contractor.

b. The \$110,884 has been amortized over 106 units represented by seven (7) customers.

c. Admittedly, the Contractor is not entitled to recover the costs of the tools and in addition retain title. It is suggested that in lieu of attempting to allocate a portion of the inventory of tools to a specific contract the Contracting Officer negotiate an amount that will represent the retention value of the tools and apply this amount as a credit to the Contract(s).

6. The Contractor was not furnished nor did it acquire any Government equipment other than that commented upon in paragraph 5.

7. Profit: The Contractor is requesting 15% of total costs as consideration for profit. In proposals submitted to the Department of Defense, profit requests have ranged from 11% to 12% of costs. For the year ended 31 December 1958, Contractor realized a profit from all operations, before provision for Federal Income Taxes of 3.4% of cost of sales. However, considering only those profit and loss items which normally are included in a contract cost base, profit from operations represented 9.19% of cost of sales.


Liaison Officer
Eastern District
Auditor General

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SCHEDULE A
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Explanation of Auditor's Costs Questioned
(Cont'd)

	<u>Costs</u> <u>Questioned</u>
(g) <u>Overages (Due to obsolescence)</u> The Auditor did not determine whether the items have useful value. This amount is referred to the Contracting Officer for his determination.	\$ 1,103.
(h) <u>Engineering:</u> See Schedule A-1	4,704.
(i) <u>Inventory Shrinkage:</u> Contractor is applying .5% to all costs, excluding engineering, to arrive at shrinkage charge. This is admittedly an estimate which Contractor is unable to support and is therefore questioned by the Auditor.	547.
(j) <u>General and Administrative Expenses:</u> Contractor used a rate of 6.5%. Auditor's effective G and A rate (excluding engineering) is 5.7%. Auditor's G and A rate for Engineering is 4.261%. The Auditor has adjusted the applicable periods to the rates negotiated by the cognizant agency and has arrived at the rates indicated above. The adjustment represents the difference between the Contractor's rate and the application of the Auditor's rates to the accepted cost base.	3,086.
(k) <u>Warranty:</u> Contractor's proposal includes the amount of \$6,461 representing 4% of total net costs for "Warranty Reserve." Examination of the warranty reserve account discloses that warranty expense has been negligible. Further, Contractor's experience has not been of sufficient length to indicate just what the incidence of repair will be. The total amount is questioned by the Auditor.	6,461.
(l) <u>Research and Development:</u> Contractor applies 1.5% to total net costs. The amount of \$2,424 is questioned by the Auditor for the reasons set forth in paragraph 4 and is referred to the Contracting Officer	<u>2,424</u>
Total	<u>\$33,003.</u>

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